

# Newsletter

HELPING YOU  
SECURE  
A BETTER  
TOMORROW



105 Sea Hero Road, Suite 1, Frankfort, Kentucky 40601-8862

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## A TERM YOU SHOULD KNOW

**Diversification** – Investing in a number of different funds to offset poor performance by one or more fund(s) or asset class(es) as others are doing well; or more broadly, to help reduce market risk. That's one reason your plan offers funds from across the spectrum of asset classes.

Investment markets often see losses in a sector, or type of business. For example, the technology market shot up in the 1990s, but just as rapidly fell back. By spreading your assets around, you reduce the chance of losses from being heavily invested in one type of investment.

Although it does not assure a profit and does not protect against a loss when the whole market declines, many investors have found diversification to be an effective way to manage investments to their goals.

If you're not sure about how to mix and match to achieve diversification, contact your local Marketing Representative or call the Marketing office at 800.542.2667.

## Maximize your deferrals in 2005!

It's time to start thinking about increasing your deferral for the 2005 calendar year. An Increase in the Maximum deferral limits for 2005 gives you the opportunity to save even more for Retirement!

To ensure that your new deferral amount will take effect with your first paycheck in January 2005, please have your new Participation Agreement completed and in our office no later than December 1, 2004.

We understand that contributing the maximum is not practical for everyone. However, it's always a good idea to regularly make increases to the amount you defer.

Remember: SAVING TODAY = A MORE ENJOYABLE RETIREMENT, TOMORROW!

### 2005 ANNUAL DEFERRAL LIMITS

#### Participants Under Age 50

\$14,000 in the 401k Plan  
\$14,000 in the 457 Plan  
Combined total = \$28,000\*

#### "Baby Boomer Bonus"

#### Participants Age 50 and Older

\$18,000 in the 401k Plan  
\$18,000 in the 457 Plan  
Combined total = \$36,000\*

Participants may also qualify to defer up to twice the applicable annual (under age 50) 457 limit in the 3 years immediately prior to full retirement. Contact your Marketing Representative to see if you qualify for this "Catch-up Provision".

\* Total does not include additional deferrals allowed to the 457 Plan under the "catch-up provision".

## Fund changes name and investment policies

Effective August 20, 2004 Vanguard Long Term Corporate Fund has a new name and investment policy. The Fund is now called Vanguard Long Term Investment Grade Fund Admiral Shares. The ticker symbol, VWETX, remains the same.

New Policies permit the fund to invest a greater percentage of assets in mortgage-backed securities and U. S. Government and agency bonds. While the new policies provide the fund's advisors with greater flexibility to invest in non- corporate securities, the fund is expected to continue to invest predominantly in corporate bonds. It should be noted, the fund's

category is not impacted by the change in policies.

For additional information please contact your local Kentucky Deferred Compensation Marketing Representative.

### Fixed Contract Fund Rate

A blended net crediting rate that will yield **3.75%** will be credited for the Fourth Quarter of 2004. The rate was **3.75%** for the previous quarter.

# Your future is now... Retirement Ahead!

If you're approaching retirement, you may be considering what to do with your retirement assets. Kentucky Deferred Compensation offers you several distribution options.

**Lump sum withdrawal** – You may take all of your Plan Account at one time. You should consider this option carefully. Most people who take a lump-sum withdrawal of retirement assets have spent it all within three years. Also, you will be subject to income taxes on withdrawals, and payment from a 401k plan prior to age 59 ½ may be subject to a 10% Federal Excise Tax for early distribution.

**Periodic withdrawals** – You may establish a regular periodic payment of benefits to be paid monthly, quarterly, semi-annually or annually. You pay income taxes only on what you withdraw each year. This allows you to continue managing your investments through your retirement account

**Partial lump sum withdrawal** – With this option, you can combine the benefits of lump-sum and periodic withdrawals. You withdraw some of your assets right away and then receive monthly, quarterly, semi-annual or annual payments, or leave the balance until a later date.

**Defer receiving benefits until a later date** –

You are not required to make a decision when you leave employment, however, you may instead defer receiving benefit payments. If you choose to defer payments, your account will have the opportunity to accumulate tax-deferred earnings until benefits are paid to you.

By federal law, you must begin receiving payments no later than April 1 following the close of the calendar year in which you attain age 70 1/2. When you attain age 70 ½, Kentucky Deferred Compensation will make your required minimum distribution payments to you, regardless of your employment status.

Finally, amounts not withdrawn will continue to be subject to market risk, including possible loss of principal. Your Marketing Representative, a Nationwide Retirement Specialist, can help you understand that risk, discuss how you may be able to minimize it and continue to help you find the answers you need so you can manage your account to achieve financial security in retirement.

As you prepare for retirement, you should consult your own financial legal counselor. Information provided by a Nationwide Retirement Specialist is for educational purposes only and is not intended as investment advice. We cannot and will not offer tax or legal advice.



## Fund changes name and investment policies

When you enrolled in the Plan, you decided how your contributions each payday would be invested. This is called asset allocation. Time has a way of changing things. For example, your account may have grown thanks to earnings and compounding. However, some funds may have fared better than others over time, meaning the assets in your account today may not be spread out as you originally intended. And your tolerance for risk, plans for retirement and other factors that led to your original strategy may have changed. So it may be time to re-allocate investments according to your allocation strategy. As you do this, you should consider:

- How soon you plan to retire.
- How much you will depend on your Kentucky Deferred Compensation account for retirement income.
- How long you plan to live in retirement.
- What estate you plan to leave for future generations.

Your Kentucky Deferred Compensation Marketing Representative, a Nationwide Retirement Specialist, can help you find the answers to these questions. Then, you can decide how much of each contribution should be put among the various asset classes available through the Plans. Call 800.542.2667 and ask for Marketing.

Keep in mind that all investing involves market risk. You could lose the money you invest. Strategies such as asset allocation, dollar-cost averaging and diversification have proven successful in helping investors reduce market risk, but they cannot guarantee profit nor assure you against loss.

# Mutual Fund Settlement Update

Fund Company	Settlement Date	Details of Settlement
<b>Banc One Investment Advisors</b>	6/29/2004	<ul style="list-style-type: none"> <li>• \$10 million total disgorgement</li> <li>• \$40 million penalty</li> <li>• \$50 million placed in escrow to be distributed to eligible shareholders</li> <li>• Reduce advisory fees by \$8 million per year for five years and agree not to raise advisory fees for five years</li> </ul>
<b>Federated Investors</b>	2/3/2004	\$7.6 million restoration fund, including: <ul style="list-style-type: none"> <li>• \$4.8 million related to detrimental impact of frequent trading activity</li> <li>• \$2 million related to detrimental impact of orders accepted after funds' closing times</li> <li>• \$420,000 received by the company from assets invested as a result of frequent trading arrangements</li> <li>• \$355,000 of interest on these amounts</li> </ul> <i>(Above amounts are approximate)</i>
<b>Franklin Templeton Investments</b>	8/2/2004	<ul style="list-style-type: none"> <li>• \$50 million to be distributed to Franklin Templeton fund shareholders, which includes a \$20 million civil penalty</li> </ul>
<b>Janus Capital Group</b>	8/18/2004	\$31.5 million restoration fund, including: <ul style="list-style-type: none"> <li>• \$22.8 million realized by the discretionary frequent traders</li> <li>• \$2.7 million representing opportunity cost of those gains had they been in the funds</li> <li>• \$1 million in management fees received by Janus related to discretionary trading accounts</li> <li>• \$5 million in waived redemption fees</li> </ul> <i>(Above amounts are approximate)</i>
<b>MFS</b>	2/5/2004	<ul style="list-style-type: none"> <li>• \$225 million to compensate certain fund shareholders, of which \$50 million is a penalty</li> <li>• MFS to reduce fees in New York by approximately \$25 million annually over the next five years</li> <li>• \$1 million administrative fine to be paid to the State of New Hampshire Bureau of Securities Regulation</li> <li>• Messrs. Ballen and Parke agree to suspensions for nine and six months, respectively, and each will pay approximately \$315,000, including a \$250,000 penalty</li> </ul>
<b>PIMCO</b>	6/1/2004	<ul style="list-style-type: none"> <li>• New Jersey Attorney General dismissed all charges against PIMCO concerning mutual fund market timing</li> </ul>

## Board actions taken August 25, 2004

- 1) Approved a Fiduciary Liability Insurance contract with AIG. To be effective September 1, 2004.
- 2) Set the next Board Meeting date for Thursday, November 18, 2004 at 9:00 a.m.

## View your account online

Have you logged onto our Website and established a password so you can view your account online? Why not give it a try!

First, go to [www.kentuckydcp.com](http://www.kentuckydcp.com). On the first page, click on "Employee." Next, click on "New User Setup" located in the upper right-hand portion of the page. Then, complete the information requested to establish a password. It's that easy.

Once you have established a password you can view your account information, make changes to your funds, request an increase in your deferral amount and receive breaking news from Kentucky Deferred Compensation.

# Fund Focus

For information only – NOT a recommendation for investment

## AMERICAN CENTURY SMALL CAP VALUE FUND

**Ticker:** ASVIX

**SAVER #** 8917

**Category:** Small Value

### Investment Objective

Seeks long-term capital growth with income as a secondary objective.

The fund normally invests at least 80% of assets in equity securities of U.S. companies with small market capitalizations. It may invest in foreign securities, convertible securities, corporate and government debt, and non-leveraged stock index futures contracts. The fund invests in companies that the advisor believes are undervalued by the market.

**Risk:** Aggressive

Generally provides high return potential with corresponding high price fluctuation risk

Historically small cap stocks have been more volatile than the stocks of larger, more established companies.

Although primarily invested in U.S. stocks, the Fund may invest in foreign securities. Foreign investments involve additional risk including fluctuations in currency exchange rates and political instability.

### Top Ten Holdings

#### Percent of Fund

Sybase Inc.....	2.35%
Snap-On Inc.....	1.69%
Olin Corp.....	1.47%
Universal Health Services .....	1.45%
Platinum Underwriters Holdings .....	1.35%
Superior Industries Int'l. ....	1.35%
Bemis co Inc .....	1.33%
Smith (A O) Corp .....	1.33%
Martin Marietta Materials.....	1.33%
Kaydon Corp .....	1.32%
Percent in Top 10 Holdings.....	14.97%

### Portfolio Investment Blend

Domestic Equities.....	93.70%
Cash and Cash Equivalents.....	4.09%
Foreign Equities.....	2.01%
U.S./Foreign convertibles.....	0.20%
Number of Equity Issues.....	149

### Sector Weightings

#### Small Cap Value

Financials .....	17.56%
Consumer discretionary.....	16.36%
Industrials .....	16.19%
Information Technology .....	16.15%
Materials.....	11.29%
Health Care .....	7.84%
Energy .....	6.33%
Utilities.....	5.38%
Consumer Staples.....	2.90%
Telecommunication Services .....	0.00%

### Management Team

Ben Giele, CFA  
Vice President, Portfolio Mgr

Kevin Laub, CFA  
Portfolio Mgr

### Expenses

Expense Ratio 1.26%



## Contact Us!

Telephone Number(s):

**502-573-4494** or  
**800-542-2667**

On the Web:

[www.kentuckydcp.com](http://www.kentuckydcp.com)  
[www.personnel.ky.gov/dcomp.htm](http://www.personnel.ky.gov/dcomp.htm)

Email address:

[persdeferredcomp@ky.gov](mailto:persdeferredcomp@ky.gov)

Fax Number:

**502-573-4494**

Nationwide® Retirement Solutions

Web-Site Help Center:

**800-653-4632, option 9**